

MONONGAHELA CAPITAL MANAGEMENT

PERCEPTIONS

3rd Quarter, September 30, 2024.	09/30/2024	% Change 3rd Quarter	% Change Year to Date
Dow Jones Industrial Average	42,330.15	8.72 %*	13.93 %*
S&P 500	5,460.48	5.89 %*	22.08 %*
Russell 2000	2,229.97	9.27 %*	11.17 %*
Bloomberg Aggregate Bond Index		5.20 %	4.45 %
10 Year Treasury Yield	3.78 %		
30 Year Treasury Yield	4.12 %		

* Includes reinvested dividend

Thank you, Chef

Just around the corner from our first Chicago office, an unassuming sandwich shop blends into the surrounding streetscape. Despite its nondescript appearance, Mr. Beef has been a culinary institution serving the River North area for decades. Over those many years, it developed a reputation for serving one of the best Italian beef sandwiches in all the city. More recently, it has become known as the inspiration for the pop culture hit, *The Bear*, now in its third season on FX/Hulu.

The show, produced by Christopher Storer, follows a fine dining chef, Carmen, who returns to Chicago to take over the family's Italian beef sandwich restaurant. Buried in overdue bills and an endless barrage of problems, Carmen takes on the leadership role of transforming the sandwich shop into a Michelin Star restaurant, a herculean task laden with unrelenting challenges and hardship. With a marvelous cast of characters, the beautifully choreographed show conveys the incredible stress, chaos, and panic of running a restaurant. Storer effectively captures the extreme anxiety of the kitchen and transmits the pandemonium and emotion to the viewer, so much so that one occasionally needs to take a break from watching. Yet amidst the chaos, with a balance of art and precision, Carmen and his team are able to bring something extraordinary to the table.

In our viewing of *The Bear*, we could not help but draw parallels between the chaos of the kitchen and the volatility of the markets. When we started our firm in 1985, our aspirations were to create the financial industry's equivalent of a three-Michelin-star restaurant. We began our dogged pursuit of excellence, and while the hurdles were significant, especially in the early years, we will celebrate our 40th anniversary in 2025.

With backgrounds in math and analytics, our work was initially focused on the fundamental analysis of individual companies, and that methodology remains a key focus today. This analytical approach is critical in evaluating risk. Over time, to complement the quantitative fundamental research, we came to realize the importance of mastering the behavioral sciences, understanding the value of good leadership and corporate culture to support sustained growth. In a traditional, qualitative approach to research, we try to visit the companies and the management team we are investing with, especially the small and mid-cap companies.

At some point while watching *The Bear*, you begin to appreciate not only the passion and skill of the chefs and staff, but also the incredible preparation, commitment, and dedication to excellence. It is in a similar vein that we have always tried to apply our research to the chaos of the markets. Two years after we incorporated, our research uncovered a local company, II-VI, which was exploring the potential for an Initial Public Offering (IPO). IPOs are particularly hard to analyze due to a lack of historical data available. As a result, meeting with management and assessing the firm's culture are essential. The company was headquartered in Saxonburg, PA, just an hour or so north of Pittsburgh. The President and CEO was Carl Johnson, a scientist with experience at Bell Labs and Essex International. His particular expertise was in developing CO₂ laser technology. In 1971, Carl left his position as Director of Research and Development at Essex and founded II-VI.

In the fateful month of October 1987, II-VI filed their offering documents and went public at \$6.00 a share. In 1987, II-VI had revenue of \$10 million. We were intrigued with the growth potential of the laser industry and called Carl for an appointment. We visited and within the first half hour, we were impressed with his scientific acumen in the field of lasers but uncertain about his leadership skills. Any doubt quickly faded as Carl gave us the tour of the facility. He knew every inch of the manufacturing floor, every bolt and seal in the clean rooms, the ventilation systems, and the complex process of growing crystals. Most importantly, he knew every employee by name, and you could sense the respect they had for his leadership and the respect Carl had for his employees.

In addition to the skills and knowledge described above, he was financially mindful of shareholders' (our clients') money. He purchased used centrifuges for pennies on the dollar and used his high school neighbors to help load and transport the equipment. When he told me about the cost for the facility, I commented that the annual lease rate was a little high, but he corrected me. That figure was what they paid for the building; they owned it. The rest is history, and II-VI (now Coherent) remains our second largest position. With four two-for-one stock splits, it has appreciated over 200 times the initial price. II-VI's revenue, \$10 million in 1987, is estimated to exceed \$5 billion in the fiscal year of 2025. The most recent CEO, James Anderson, was hired on June 3rd, 2024, and although it is early, we are impressed with his technical skills and leadership, and we look forward to continued growth as his partner.

In our analysis of II-VI and viewing of *The Bear*, we are reminded of our humble beginning in 1985. No stranger to the struggle between adversity and ambition, we strive to confront the challenges of the financial markets.